

# Strategic Ethical Active D (Traditional Ethical Leaders)

Quarterly Update, Q1 2025



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## The big picture: Macro and Markets

### In a nutshell

- **Trump causes confusion and contempt with tariff policy**

Aiming to bring production to the US, a chaotic list of tariffs has been announced, altered, threatened and inconsistently implemented.

- **Rotation away from US equities**

From leader to laggard: the US equity market has had a remarkable reversal of fortunes this year. Instead, investors are now looking to Europe.

- **Central banks continue to cautiously cut rates**

Expectations for interest rate cuts have cooled somewhat. The trajectory is still downwards – albeit at a slower pace as inflation persists.

# What's been happening in Q1?

## Asset class returns (Q1 2025)



The first quarter of 2025 has seen one of the biggest relative underperformances from the US in recent history. After such a strong couple of years, the magnitude of the reversal is quite astounding - especially given the initial euphoria following Trump's election victory.

Billed as pro-growth, anti-regulation and "good for business", so far markets haven't played out quite as expected since Trump took office. US equities - backed by an already superior economic growth trajectory - were expected to continue leading, with small caps set to benefit from tax cuts and domestic policy support, and cryptocurrency expected to gain legitimacy and integration. Instead, shorting the "Trump trade" would've been the better play, with pretty much the opposite occurring.

Why? Constant backtracking and policy U-turns have created major uncertainty. Much of what's been announced so far doesn't just hurt America's trading partners - it also damages the US, too. Ironically, Trump's hard stance, particularly on defence spending, has galvanised other nations. Germany has amended its rules around debt and is now pursuing fiscal expansion - spurring sentiment and returns for European equities, with money flowing into the region from the US.

Another blow to hit the US market - heavily weighted towards tech and AI - was the emergence of DeepSeek, a Chinese AI model built at a fraction of the cost of peers and using lower grade chips. Serving as a wakeup call for US tech firms in the race for AI dominance, it's raised a familiar question about massive spending and limited payback.

While Chinese tech has shown clear progress, the wider economy is yet to demonstrate clear sustainable improvement. However, Xi Jinping's recent meetings with private sector business leaders signal clear support for both economic growth and stock market performance.

Central banks continued to reduce rates in Q1, continuing the journey that began in 2024. Easing monetary policy to support growth is being balanced against the risk of fanning inflation and hurting households - none of which is made any easier by the constant and unpredictable tariff back-and-forth.

# What does that mean for performance?

## Cumulative Performance (%)

This table outlines the cumulative investment performance of this solution across various risk grades, versus their IA benchmark.

	Q1	YTD	1 Year	3 Year	5 Year
Risk Grade 1	0.82	0.82	4.22	8.05	10.01
<b>IA Standard Money Market</b>	<b>1.16</b>	<b>1.16</b>	<b>5.07</b>	<b>12.93</b>	<b>13.21</b>
Risk Grade 2	-0.17	-0.17	3.08	6.27	13.20
Risk Grade 3	-0.85	-0.85	2.49	5.70	17.83
Risk Grade 4	-1.48	-1.48	1.95	5.21	22.73
<b>IA Mixed Investment 0-35% Shares</b>	<b>0.44</b>	<b>0.44</b>	<b>3.33</b>	<b>2.87</b>	<b>15.08</b>
Risk Grade 5	-2.17	-2.17	1.45	4.44	27.48
Risk Grade 6	-2.79	-2.79	0.88	4.12	33.07
<b>IA Mixed Investment 20-60% Shares</b>	<b>0.21</b>	<b>0.21</b>	<b>3.71</b>	<b>6.35</b>	<b>30.92</b>
Risk Grade 7	-3.38	-3.38	0.50	4.03	36.55
Risk Grade 8	-4.01	-4.01	0.18	4.32	41.36
<b>IA Mixed Investment 40-85% Shares</b>	<b>-1.21</b>	<b>-1.21</b>	<b>3.35</b>	<b>8.67</b>	<b>44.58</b>
Risk Grade 9	-4.74	-4.74	-0.35	4.56	46.21
Risk Grade 10	-5.49	-5.49	-0.93	4.83	51.27
<b>IA Flexible Investment</b>	<b>-1.67</b>	<b>-1.67</b>	<b>2.98</b>	<b>8.80</b>	<b>47.42</b>

## Discrete Annual Performance (%)

This table outlines the discrete annual performance of this across various risk grades, versus their IA benchmark.

	2024	2023	2022	2021	2020
Risk Grade 1	4.58	6.49	-5.84	-0.60	2.98
<b>IA Standard Money Market</b>	<b>5.21</b>	<b>4.74</b>	<b>1.28</b>	<b>-0.05</b>	<b>0.43</b>
Risk Grade 2	5.02	7.72	-9.14	0.95	4.88
Risk Grade 3	5.73	8.57	-11.31	2.95	5.19
Risk Grade 4	6.38	9.30	-13.11	4.78	6.70
<b>IA Mixed Investment 0-35% Shares</b>	<b>4.42</b>	<b>5.97</b>	<b>-10.87</b>	<b>2.84</b>	<b>3.90</b>
Risk Grade 5	6.73	9.39	-14.21	6.83	8.04
Risk Grade 6	7.15	9.65	-15.11	8.92	9.37
<b>IA Mixed Investment 20-60% Shares</b>	<b>6.07</b>	<b>6.81</b>	<b>-9.47</b>	<b>7.20</b>	<b>3.51</b>
Risk Grade 7	7.65	9.71	-15.67	10.50	10.14
Risk Grade 8	8.09	9.30	-15.15	12.27	10.90
<b>IA Mixed Investment 40-85% Shares</b>	<b>8.98</b>	<b>8.08</b>	<b>-10.04</b>	<b>10.94</b>	<b>5.32</b>
Risk Grade 9	8.62	8.96	-14.66	13.99	11.65
Risk Grade 10	9.17	8.66	-14.20	15.77	12.41
<b>IA Flexible Investment</b>	<b>9.42</b>	<b>7.08</b>	<b>-8.98</b>	<b>11.30</b>	<b>6.70</b>

# What worked and what didn't?

During the first quarter of 2025, UK Equity, European Equity and Fixed Interest posted solid performance, while US, Japan, Asia, Emerging Markets and Small Cap Equity posted negative returns. Ethical investing as a style lagged behind the broader market over the quarter, as defence companies in particular got a boost from plans for Europe to re-arm.


As a result, returns were disappointing over the quarter, with all risk grades underperforming their respective IA sector benchmarks. This is now feeding through into the first-year numbers, where ethical investing has struggled compared to the broad market. However, this is partly mitigated by our strategic asset allocation, which is overweight to the UK - the best-performing equity market over the last 12 months - and underweight to the US, which has started to lag after the falls this quarter.

In light of the recent short-term rally by defence companies, we've published a piece explaining our ESG portfolios policy and why we continue to minimise exposure to this area - available [here](#).


We continue to stress-test our portfolios and closely monitor our underlying fund managers to make sure they're meeting the ESG mandate and long-term performance expectations. If you'd like a more detailed performance commentary or help with client queries, please get in touch.

Finally, the end of the quarter marked the three-year anniversary of our Passive ESG solution, which has fared well during the recent market volatility. You can read more about how the solution has developed over the last three years [here](#).


## Asset classes



European equity (held within our international equity asset class) comfortably outperformed all other asset classes. After a tough 2024, this marks a strong reversal for a region where many investors could previously only see bad news. Whilst economic growth is still expected to be low and the threat of US tariffs remains, there are catalysts for improved economic growth. Key to this is German fiscal policy, with a change in government attitude towards debt - and being less reliable on the US - offering scope to boost spending.



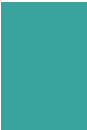
In a challenging quarter, Corporate Bonds delivered positive returns, helping to offset losses in the equity space. Alongside consistent income generation, this remains a key reason for using Fixed Interest within a multi-asset portfolio. With yields still high and interest rates unlikely to fall by much this year, we believe the asset class is well placed to continue performing.




US equities (held within our International Equity asset class) US equities have lagged behind other markets so far this year, having faced a number of headwinds - with an erratic president being a prominent one. The uncertainty created by ever-changing tariff policies, along with the short-term inflation risks they bring, is still not fully understood.

As our US exposure outweighs our European holdings, International Equities overall fell. However, this impact was partially offset by our fund managers' consistent underweight position in US equities relative to around 70% weight in global indices. This was largely driven by ESG concerns and expensive valuations, particularly when many of our funds have limited exposure to the 'Magnificent 7' stocks.


## Manager selection



Corporate Bonds continued to perform well, with all funds delivering positive absolute returns and outperforming the index. This was led by Rathbone Ethical Bond, which has benefitted from its banking and financial holdings.



The recently introduced Global Bonds asset class, featuring exposure to sovereign green bonds via the GS Sovereign Green Bond fund, was negative in absolute terms over the three months but managed to outperform its benchmark on a relative basis.



UK Equities struggled over the quarter, with mid and small caps suffering in particular. Both Liontrust Sustainable Future UK Growth and Aegon Ethical Equity tend to be overweight in this area of the market and underperformed as a result. Janus Henderson UK Responsible Income also underperformed as large value outperformed within the UK, but was positive in absolute terms.

## Fund changes

### Strategic Asset Allocation Amendments

We decided to trim UK equity exposure at lower to middle risk grades and trim Emerging Markets / Asia Pacific ex Japan equity exposure at middle to higher risk grades, both in favour of adding to International equity exposure (across the range of risk grades). These changes are in line with those made in our mainstream solutions, and account for the nuances of the Strategic Ethical Active solution.

### Share class conversions (various funds)

We have converted to cheaper share classes in a number of funds, with the aim of reducing charges for clients. Working with a range of fund management groups, our scale and strength of relationships have enabled us to negotiate and secure access to share classes with lower charges.

# Asset allocation (%)

Risk Grade	1	2	3	4	5	6	7	8	9	10
Managed Liquidity	70.00	42.25	31.25	22.00	14.00	6.00	0.00	0.00	0.00	0.00
Global Bonds	10.50	14.50	12.75	10.25	8.50	7.00	6.00	3.50	1.50	0.00
UK Corporate Bonds	19.50	28.00	28.00	27.50	26.50	26.25	24.00	16.50	8.50	0.00
UK Equity	0.00	6.25	11.50	16.50	18.25	19.25	21.00	22.00	20.00	18.00
International Equity	0.00	9.00	16.50	23.75	26.00	30.25	33.25	35.50	40.50	46.00
Emerging Markets/Asia Pacific ex Japan Equity	0.00	0.00	0.00	0.00	6.75	11.25	15.75	22.50	29.50	36.00

# OCF & Yield

Risk Grade	1	2	3	4	5	6	7	8	9	10
OCF (%)	0.17	0.31	0.38	0.45	0.52	0.59	0.65	0.70	0.74	0.79
Yield (%)	4.49	3.65	3.25	2.92	2.53	2.16	1.82	1.53	1.13	0.72

# A view on risk

	Volatility (%)			Max Drawdown (%)		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Risk Grade 1	1.25	3.39	2.91	-0.22	-6.19	-8.83
<b>IA Standard Money Market</b>	<b>0.12</b>	<b>0.47</b>	<b>0.67</b>	<b>0.00</b>	<b>0.00</b>	<b>-0.10</b>
Risk Grade 2	2.83	5.35	4.73	-1.33	-9.06	-12.80
Risk Grade 3	3.91	6.79	6.26	-2.52	-10.76	-15.20
Risk Grade 4	4.96	8.11	7.69	-3.63	-12.17	-17.18
<b>IA Mixed Investment 0-35 Shares</b>	<b>3.54</b>	<b>6.00</b>	<b>5.63</b>	<b>-1.31</b>	<b>-9.51</b>	<b>-13.28</b>
Risk Grade 5	5.51	8.89	8.68	-4.48	-12.68	-18.22
Risk Grade 6	6.22	9.62	9.67	-5.36	-13.01	-19.01
<b>IA Mixed Investment 20-60 Shares</b>	<b>4.21</b>	<b>6.74</b>	<b>6.85</b>	<b>-2.13</b>	<b>-9.09</b>	<b>-12.14</b>
Risk Grade 7	6.83	10.20	10.37	-6.12	-12.81	-19.35
Risk Grade 8	7.28	10.27	10.75	-6.84	-11.47	-18.33
<b>IA Mixed Investment 40-85 Shares</b>	<b>6.03</b>	<b>7.92</b>	<b>8.51</b>	<b>-4.38</b>	<b>-9.20</b>	<b>-12.54</b>
Risk Grade 9	7.94	10.45	11.19	-7.70	-10.16	-17.34
Risk Grade 10	8.69	10.73	11.71	-8.58	-9.77	-17.20
<b>IA Flexible Investment</b>	<b>6.44</b>	<b>7.64</b>	<b>8.39</b>	<b>-5.06</b>	<b>-7.86</b>	<b>-11.20</b>



# Voting and engagement

Our Ethical Oversight Committee (EOC) met in March to review a number of different sustainable global bond funds for potential inclusion in the portfolio, aiming to provide diversification beyond the sterling credit market.

Following this review, we're moving forward several funds for further analysis by our investment team, to ensure they meet our strict investment-focused requirements. Four members of our investment team also spent the day at the London offices of Edentree and Montanaro, speaking with equity and bond fund managers, heads of Responsible Investment, and voting and engagement specialists for an update on their ongoing efforts. We were very impressed with both managers and remain confident continuing to invest with them.

Our team has been working on the decarbonisation of our wider investment business. Over the quarter, we met with senior personnel in the Responsible Investing and Stewardship teams of two large US-based asset managers to discuss how climate considerations are factored into their voting and engagement policies with companies, and how these could be improved to help drive the transition to net zero.

## Voting

In Q4 2024 the equity managers in the portfolio cast **474** votes across **53** different companies, primarily around governance issues, but also incorporating environmental and social concerns. For more ESG focussed funds like the ones in this solution, you'd expect to see a high proportion of "For" votes.

### Votes by support for management

For	94%
Against	6%
Abstain	0%

## Fund manager engagement spotlight

### Montanaro (Better World, Risk Grades 5-10)

Montanaro engaged with biomedical supply company Biotage across both social and sustainability efforts following recent leadership changes. Montanaro were pleased to learn that Biotage had recently increased employee accountability by linking their bonuses to specific ESG KPIs. The company also plans to provide enhanced reporting on social initiatives such as their diversity and inclusion, employee well-being and community engagement programmes.

### Columbia Threadneedle (CT) (Responsible Global Equity, Risk Grades 2-10)

Following a site visit to Columbia, CT had a call with packaging company Smurfit WestRock's chief sustainability officer on biodiversity & indigenous communities. This resulted in the company pledging to produce further data on the positive impact their forestry plantations have on restoring previously degraded land, while also committing to provide Taskforce on Nature-related Financial Disclosures (TNFD) aligned reporting by 2026.

**Please note:** Stewardship activity is reported with a lag, so comments refer to the previous quarter. In this case, Q4 2024.



# Industry exposure

This table compares the exposure of Strategic Ethical Active D Risk Grade 6 with global equities. Data sourced from Morningstar as of **31<sup>st</sup> March 2025**.

## How to read this table:

The percentages show the weighting to companies in the solution with *any* revenue from each area, even if it's small. For example, 0.12% of this portfolio is invested in companies with revenue from gambling *above zero*.

Industry	Ethical Active D Risk Grade 6	Benchmark*
Adult Entertainment	0.00	0.00
Alcohol	0.00	1.04
Animal Testing	7.80	16.31
Abortive/Contraceptives/Stem Cell	4.60	7.54
Controversial Weapons	0.00	1.70
Fur & Speciality Leather	0.00	0.00
Gambling	0.12	0.26
GMO	0.00	0.08
Military Contracting	0.00	2.66
Nuclear	0.37	1.06
Palm Oil	0.00	0.03
Pesticides	0.00	0.16
Small Arms	0.00	1.03
Tobacco	0.00	1.09
Thermal Coal	0.00	1.34
Thermal Coal Power Generation	0.78	2.25
Oil & Gas Production	2.98	9.17
Oil & Gas Power Generation	3.29	6.36
Oil & Gas Products & Services	10.20	13.40
Oil Sands Extraction	0.00	3.39
Arctic Oil & Gas Exploration	0.00	3.42

## About this data

The Morningstar UK Moderately Adventurous Target Allocation index has been used as an equivalent benchmark.

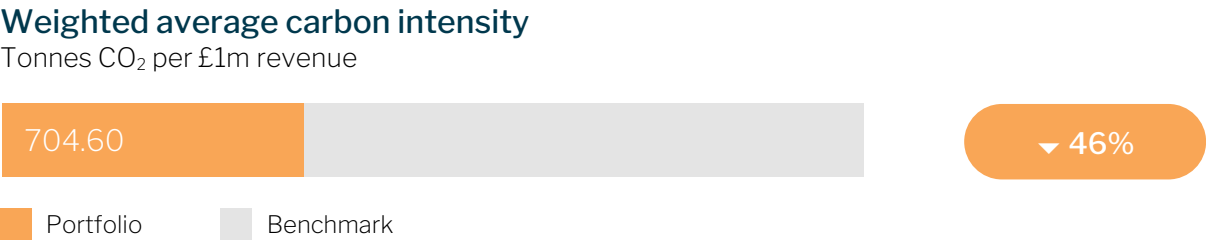
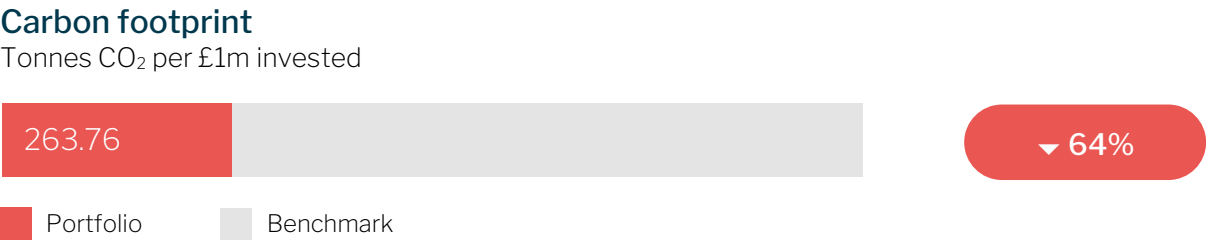
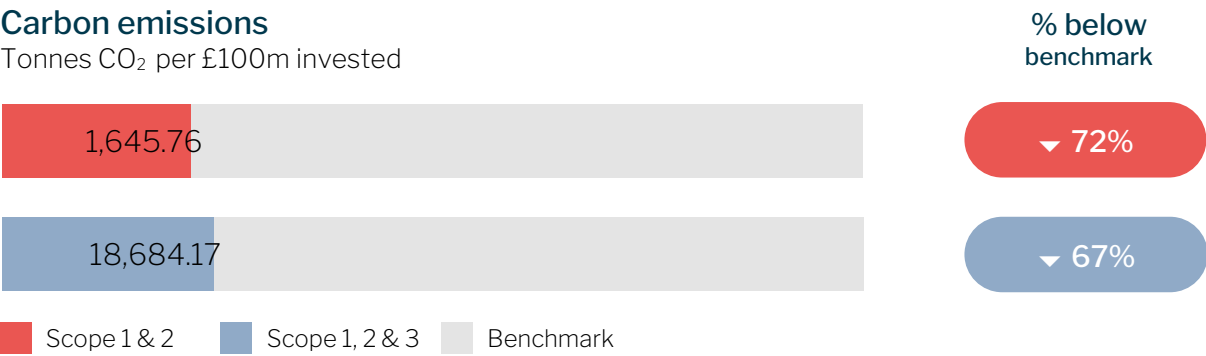
Based on the latest available data from Morningstar, but there may be gaps or time lags in some of the information.

Please note animal testing includes all animal testing. That means pharmaceutical products, medical devices, biotechnology, non-pharmaceutical products like cosmetics, and chemicals like pesticides and food additives.

Risk Grade 6 is shown for illustration because it invests in all asset classes and funds used in the solution, actual exposure may differ by risk grade.

# Carbon metrics

Data shown for Strategic Ethical Active D, Risk Grade 6 vs. Morningstar UK Moderately Adventurous Targeted Allocation Index.



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About this data

Based on the latest available data from Morningstar as of May 2024. There may be gaps or time lags in some of the information. Risk Grade 6 is shown for illustration because it invests in all asset classes and funds used in the solution, actual carbon metrics may differ by risk grade. Further information can be found in our TCFD report.

## What's the outlook?

There's been a big shift in the global world order. The US is turning increasingly inward, while structural changes in Europe's fiscal policies are raising the prospect of faster long-term growth and improved productivity.

For investors, this opens up opportunity – but as always, execution is everything. Markets will have their twists and turns. Staying disciplined and nimble is vital, as is maintaining diversification and avoiding crowded trades.

Switch off from the political noise, keep your focus on the long-term and the power of compounding will help you progress towards your financial goals

## Important information

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- Past performance is not an indicator of future performance and investment returns can go down as well as up.
- All data sourced from FE fundinfo.

## Get in touch

If you'd like to chat to us about our Strategic Ethical Active Profile D solution, please get in touch.

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